

CITY OF SAN JOSE
2007-2011 ADOPTED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES

The 2007-2011 Adopted Capital Improvement Program (CIP) derives its funding from a variety of sources. The following table provides a listing of those sources grouped by major category, along with a comparison with the 2006-2010 Adopted CIP.

<u>Source</u>	<u>2006-2010 CIP</u> <u>(\$ millions)</u>	<u>2007-2011 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 703.3	\$ 878.7	\$ 175.4
Sale of Bonds	266.5	213.7	(52.8)
Other Agencies/Grants	117.4	156.5	39.1
Fees and Charges	222.0	253.6	31.6
General Fund	32.3	44.6	12.3
Transfers from Other Funds	536.2	1,135.5	599.3
Interest Income	26.4	42.6	16.2
Other Revenue	190.9	162.8	(28.1)
TOTAL	\$ 2,095.0	\$ 2888.0	\$ 793.0

Beginning Fund Balances

The 2007-2011 Beginning Fund Balances of \$878.7 million are higher than the 2006-2010 CIP level by \$175.4 million (25%). The two largest capital programs in the 2007-2011 Adopted CIP account for 65% of the Beginning Fund Balances and over 80% of the increase from the prior CIP. The Airport Capital Program accounts for 40% (\$351.8 million) of the Beginning Fund Balances, an increase of \$81.3 million from the prior CIP based on the revised schedule for the Airport Master Plan build-out. The Parks Capital Program has Beginning Fund Balances totaling \$216.4 million, an increase of \$64.6 million from the 2006-2010 CIP level due primarily to the timing of the Parks Bond Fund projects, a higher Park Trust Fund balance, and higher Construction and Conveyance Tax collections. The significant number of capital projects programmed over the next five years in these programs should result in a significant reduction in the fund balance total.

Sale of Bonds

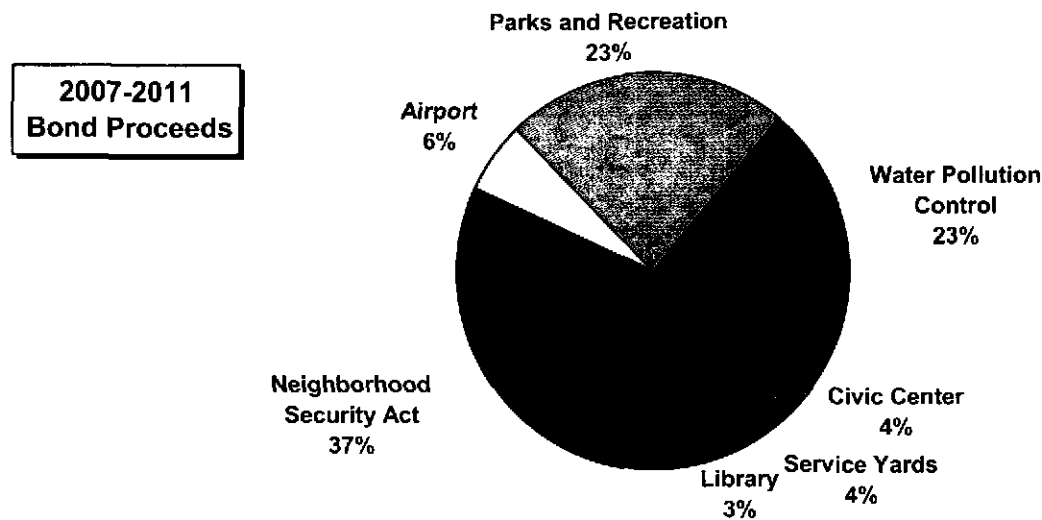
Total bond proceeds expected over the next five-year period of \$213.7 million reflect a \$52.8 million (20%) decrease compared to the estimates included in the last CIP. This decrease primarily reflects a drop in General Obligation Bond proceeds as these bond projects are being completed and a significant reduction in bond proceeds associated with the new City Hall as that project is in the final close-out stage. The 2007-2011 Adopted CIP includes the scheduled sale of the remaining General Obligation Bonds associated with the public safety projects (\$79.5 million), the parks and recreation projects (\$49.9 million) and the library projects (\$6.5 million). This category also reflects the sale of bonds to fund Electrical Reliability Improvements at the Water Pollution Control Plant (\$50.0 million), FMC Site Re-Use Preparation (\$12.3 million); Phase II of the Central Service Yard (\$8.0 million), and to complete the Furniture, Fixtures, and Equipment purchases at City Hall (\$7.5 million).

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Sale of Bonds (Cont'd.)

It should be noted, however, that the majority of bond proceeds associated with the Airport Capital Program are not reflected in this category because they are technically considered a Transfer from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund. The graph below displays the anticipated bond sales by capital program area.



Other Agencies/Grants

This category totaling \$156.5 million is comprised of federal (\$64.2 million) and State (\$34.5 million) grants, contributions from other agencies that use the Water Pollution Control Plant (\$50.6 million) and the Sanitary Sewer System (\$3.2 million), the Redevelopment Agency (\$2.9 million), the Valley Transportation Authority (\$340,000), Santa Clara Valley Water District (\$156,000), and other agencies (\$620,000). On an overall basis, estimated revenues from these sources reflect an increase of \$39.1 million (33%) from the 2006-2010 Adopted Budget.

Almost all of the funding from the Federal Government is allocated to the Traffic Capital Program (\$33.4 million) and the Airport Capital Program (\$28.9 million) to support eligible projects in those areas. In the State grant category, it is anticipated that \$30.2 million will support traffic projects and \$4.3 million will support parks projects. The contributions from the Redevelopment Agency will be used to support a variety of capital projects in redevelopment areas, with the majority of these projects in Strong Neighborhoods Initiative areas. The contributions from the Valley Transportation Authority and other agencies will be used to support traffic projects.

Fees and Charges

The 2007-2011 Adopted CIP includes an estimate of \$253.6 million from the Fees and Charges category, an increase of \$31.6 million from the level included in the 2006-2010 Adopted CIP. On an

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Fees and Charges (Cont'd.)

overall basis, the revenue estimates assume moderate increases (14.2%) based on actual performance in the individual categories. The following table compares the components of the 2007-2011 Adopted Fees and Charges estimates with those included in the 2006-2010 Adopted CIP.

<u>Source</u>	<u>2006-2010 CIP</u> <u>(\$ millions)</u>	<u>2007-2011 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Construction and Conveyance Tax	\$ 94.0	\$ 119.0	\$ 25.0
Construction Excise Tax	69.0	69.9	0.9
Building and Structure Construction Tax	44.8	49.9	5.1
Sanitary Sewer Connection Fees	5.6	5.7	0.1
Water Utility Fees	4.3	4.5	0.2
Storm Drainage Fees	2.6	2.6	0.0
Residential Construction Tax	1.0	1.2	0.2
Major Water Facilities Fees	0.7	0.8	0.1
TOTAL	\$ 222.0	\$ 253.6	\$ 31.6

Following is a discussion of the revenue estimates for the three largest sources within the Fees and Charges category.

Construction and Conveyance Tax Revenues

The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from \$75 per unit located in a building containing at least twenty dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of floor area constructed. The Construction Tax accounts for approximately 2% of the total Construction and Conveyance Taxes collected.

The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds \$100. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 98% of the total Construction and Conveyance Taxes collected.

The five-year projection for Construction and Conveyance Tax revenues totals \$119 million, which is a \$25.0 million (27%) increase from the \$94 million estimated in the 2006-2010 Adopted CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market. On an annual basis, collections are projected to fall to \$27 million in 2006-2007 (from the current year revenue estimate of \$44 million) and level off at \$23 million for each of the remaining

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Fees and Charges (Cont'd.)

Construction and Conveyance Tax Revenues (Cont'd.)

years of the CIP. It is anticipated that collections will fall from the record setting levels experienced in recent years but will normalize at levels above those assumed in the development of the last CIP. The phenomenal strength of the local real estate market has driven the growth in this category over the past several years. This sector, however, is now showing signs of a long anticipated downturn, which will impact City revenue collections. C & C Tax receipts are expected to stabilize at a lower and more sustainable level over the forecast period.

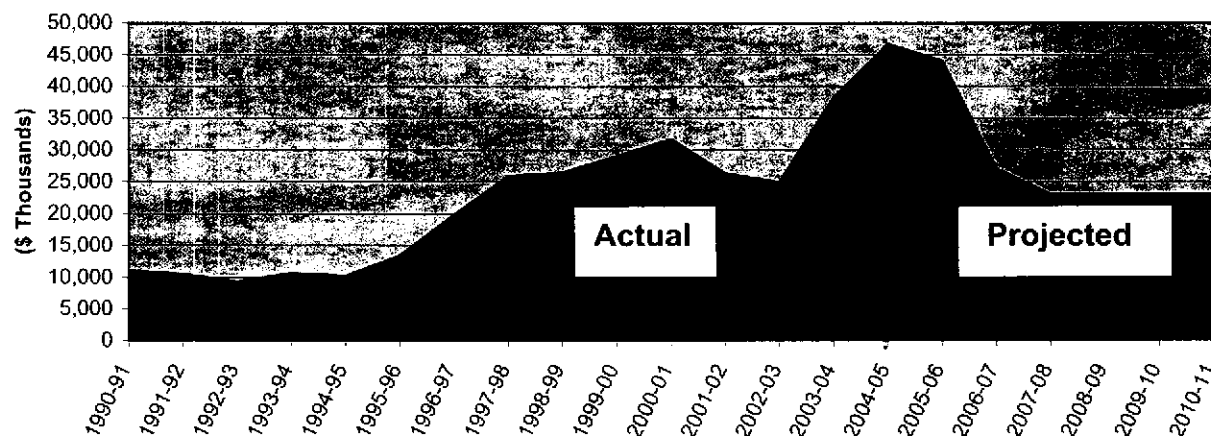
Based on the Council-approved distribution formula, these funds are allocated as follows in the 2007-2011 Adopted CIP.

Construction and Conveyance Tax Distribution

Program	Dist.	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	5-Year Total
Parks	64.00%	17,280,000	14,720,000	14,720,000	14,720,000	14,720,000	76,160,000
Park Yards	1.20%	324,000	276,000	276,000	276,000	276,000	1,428,000
Fire	8.40%	2,268,000	1,932,000	1,932,000	1,932,000	1,932,000	9,996,000
Library	14.22%	3,839,000	3,271,000	3,271,000	3,271,000	3,271,000	16,923,000
Service Yards	8.78%	2,371,000	2,019,000	2,019,000	2,019,000	2,019,000	10,447,000
Communications	3.40%	918,000	782,000	782,000	782,000	782,000	4,046,000
Total	100.00%	27,000,000	23,000,000	23,000,000	23,000,000	23,000,000	119,000,000

A graph of the actual and projected Construction and Conveyance Tax revenues is provided below. It illustrates the tremendous growth in this category, and the anticipated return to a more sustainable level of activity.

Construction and Conveyance Tax Revenues



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Fees and Charges (Cont'd.)

Construction Excise Tax

The Construction Excise Tax is levied upon construction, alteration, repair or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. The tax may be used for any "usual current expense" of the City; however, the City Council has historically utilized the majority of these funds for traffic improvements. Based upon the construction projections provided by the Planning, Building and Code Enforcement Department, the revenue estimates included in the 2007-2011 Adopted CIP total \$69.9 million, with \$13.7 million budgeted in 2006-2007. The 2007-2011 Adopted CIP represents an increase of \$0.9 million (1%) from the total amount estimated in the 2006-2010 Adopted CIP. This slight increase reflects the assumption that residential and commercial construction activity is expected to remain stable over the forecast period.

Building and Structure Construction Tax

The Building and Structure Tax is levied on residential, commercial, and industrial development. The tax is collected based on building valuation. The use of funds is restricted to capital improvements on major arterial and collector streets, including bridges, culverts, and lighting as well as traffic control systems that increase traffic volume.

Based on construction activity forecasts supplied by the Planning, Building, and Code Enforcement Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax totals \$49.9 million, with annual proceeds ranging from \$9.7 million to \$10.3 million. This is an increase of approximately \$5.1 million from the estimates included in the 2006-2010 Adopted CIP. While collections are expected to improve over the 5-year period, the projected activity levels are still well below the peak. For instance, the 2006-2007 revenue estimate of \$9.7 million is a drop of over 40% from the actual receipts in 2000-2001 of \$17.4 million.

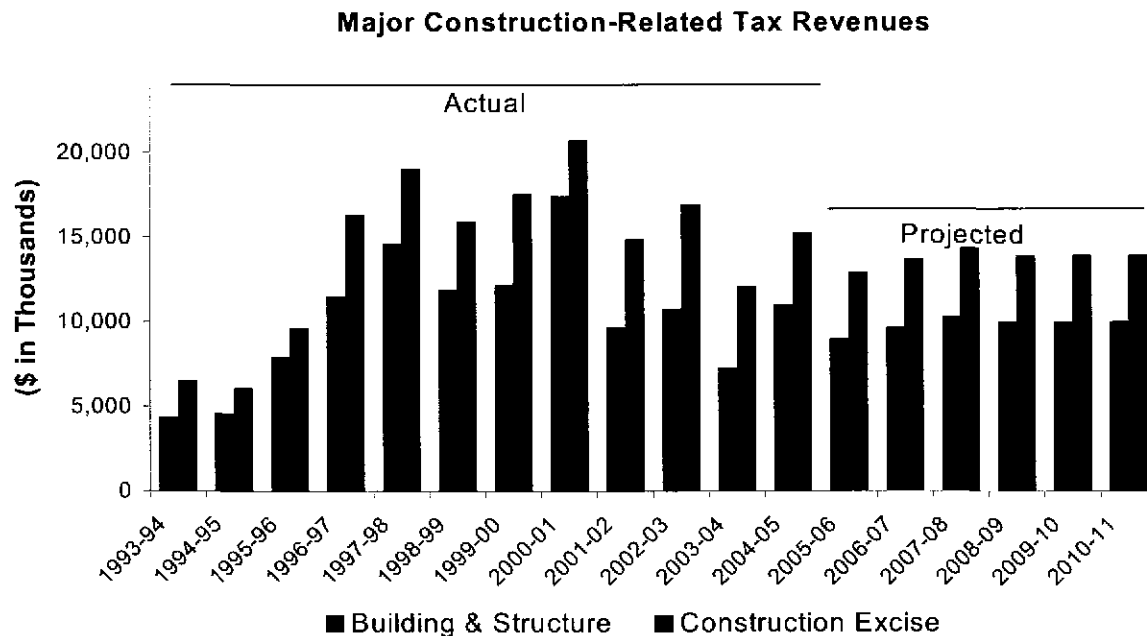
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Fees and Charges (Cont'd.)

Building and Structure Construction Tax (Cont'd.)

The following graph compares the actual and projected revenues for both the Building and Structure Construction and the Construction Excise Taxes, by year.



General Fund

General Fund contributions to capital projects included in the Adopted CIP total \$44.6 million. These funds are used to support the following capital programs:

- Traffic (\$13.2 million) – Funds sidewalk repairs, Congestion Management Program dues, and one-time funding of \$5.3 million to address a portion of the backlog of traffic infrastructure maintenance needs. Funds have also been carried over from 2005-2006 to complete capital projects.
- Public Safety (\$9.0 million) – Funds fire apparatus replacement.
- Service Yards (\$6.6 million) – Funds Service Yards Phase I debt service payments.
- Municipal Improvements (\$8.8 million) – Funds methane monitoring, HP Pavilion repairs, fuel tank monitoring, miscellaneous repairs, and one-time funding of \$1.0 million to start addressing the infrastructure maintenance backlog for City facilities. Funds have also been carried over from 2005-2006 to complete capital projects.
- Communications (\$4.8 million) – Reflects the federal COPS 2003-2004 Interoperable Communications Grant that has been carried over from 2005-2006.

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General Fund (Cont'd.)

- Parks and Community Facilities (\$2.1 million) – Reflects funding carried over from 2005-2006 to complete capital projects.

Transfers from Other Funds

Transfers totaling \$1.1 billion are the largest source of revenue in the 2007-2011 Adopted CIP primarily due to the inclusion of Transfers associated with the Airport Program (\$879.2 million). Other significant transfers are reflected in the following programs: Water Pollution Control (\$98.1 million), Sanitary Sewer System (\$73.3 million), Parks and Community Facilities Development (\$39.9 million), Water Utility System (\$14.8 million), Library (\$12.3 million), Storm Sewer System (\$7.3 million), and Parking (\$7.4 million).

The transfer amount in the 2007-2011 Adopted CIP is significantly higher (\$599.3 million) than the amount included in the 2006-2010 Adopted CIP due in large part to the substantial increase in the Airport-related transfers (\$530.8 million). The timing of the Airport Master Plan improvements has been adjusted significantly in this CIP, which has resulted in revisions to the financing schedules to fund these improvements. As discussed above, bond proceeds are the source of funding for these transfers from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund to support the majority of the Airport Master Plan projects. The transfer from the Sewer Service and Use Charge Fund to the Water Pollution Control capital program is also significantly higher (\$49.3 million) to fund the capital projects scheduled over the next five years.

Interest Income

The 2007-2011 Adopted CIP includes \$42.6 million from interest income. This is an increase of approximately 63% from the estimate included in the 2006-2010 Adopted CIP. The overall increase from the prior year primarily reflects inclusion of interest earnings from the Parks, Library, and Public Safety Bond Funds. In prior years, the interest earnings were recognized as they were received without estimates included for the Five-Year CIP. In the 2007-2011 Adopted CIP, these interest earnings have been used to offset cost escalation in these programs.

Other Revenue

The Other Revenue category totals \$162.8 million, a decrease of \$28.1 million from the 2006-2010 Adopted CIP. The majority of this funding (\$119.3 million) is associated with Airport revenues, such as Passenger Facility Charges (PFCs) and tenant improvement payments. In addition, the Service Yards Capital Program (\$14.2 million) and Public Safety Capital Program (\$3.1 million) include proceeds from the sale of surplus property. The largest decline occurred in the Service Yards Capital Program because the Commercial Paper proceeds (\$21.5 million) that were included in this program in the 2006-2010 Adopted CIP are no longer reflected because they are expected to be received in 2005-2006.

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Other Revenue (Cont'd.)

The Other Revenue category also includes developer contributions of \$20.8 million, which is consistent with the 2006-2010 Adopted CIP amount of \$21.1 million. The Traffic Capital Program includes developer contributions of \$9.2 million, of which \$6.4 million is associated with providing improvements at Bailey Avenue and Route 101 in the North Coyote Valley. The Developer Assisted Projects Capital Program includes \$7.9 million to support underground utility activities and the Parks Capital Program includes Developer Contributions of \$3.0 million associated with the Calpine Open Space agreement. Lastly, the Public Safety Capital Program includes developer contributions of \$800,000 to cover the costs of fire apparatus and equipment for the new turnkey Communication Hill Fire Station.